

# **FAIR** Taxes for ALL

Co-chairs: People For the American Way, American Federation of State, County & Municipal Employees, National Women's Law Center, Leadership Conference On Civil Rights, US Action, Campaign for America's Future

## **Oppose Health Savings Accounts in Medicare Conference Report**

November 20, 2003

Dear Representatives and Senators,

As co-chairs of the Fair Taxes for All coalition, a network of more than 325 national, state, and local organizations and coalitions – together representing millions of Americans – we are writing in opposition to provisions in the Medicare conference report that would expand Medical Savings Accounts, renamed Health Savings Accounts (HSAs). Not only are these provisions not paid for, but they represent little more than tax shelters for higher-income individuals that will reduce rather than expand access to affordable health care for most working families.

The HSA provisions would irresponsibly defy the longstanding tax principle that tax-advantaged accounts receive a tax break either when funds are deposited or when they are withdrawn, but not both. By establishing an unprecedented type of tax-advantaged account with both “front end” and “back end” tax breaks, these provisions would set a dangerous precedent that would create immense political pressure to provide similar double tax breaks for other savings and retirement accounts. A proliferation of such unpaid-for, doubly tax-advantaged accounts would dramatically swell our already massive federal deficit and further divert needed resources away from critical national priorities such as education, childcare, Social Security, and homeland security.

This new type of tax-advantaged account promises to be extremely lucrative as a tax shelter for the healthy and wealthy, who can afford to opt out of comprehensive health insurance plans in favor of high deductible plans and HSAs. Individuals at the highest income level would be able to deduct their contributions to HSAs; leave their contributions to accumulate tax-free, year after year; withdraw funds tax-free for medical purposes at any time; and pay only a low 10% penalty for withdrawing funds for non-medical purposes before retirement. For non-medical withdrawals after retirement, individuals would not have to pay any penalty at all. Thus, it is very likely that wealthier individuals, especially those ineligible for IRA accounts because of income limits, would use these accounts simply to grow their investments tax-free. Meanwhile, lower-income and sicker individuals would be worse off; if they stayed in comprehensive insurance plans, their premiums would increase; if they moved to high deductible plans and HSAs, the increase in their out-of-pocket medical expenses would likely outweigh any tax breaks they received.

Any prescription drug plan enacted by Congress at this time should not include unnecessary new and unpaid-for tax breaks for the wealthy, such as the expanded HSAs contained in the Medicare bill.

Sincerely,

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